

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6538
BILL NUMBER: HB 1215

NOTE PREPARED: Jan 28, 2014
BILL AMENDED: Jan 28, 2014

SUBJECT: Tax Credits.

FIRST AUTHOR: Rep. Clere
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill transfers administration of the Historic Rehabilitation Tax Credit (HRTC) from the Division of Historic Preservation and Archeology of the Department of Natural Resources (DHPA) to the Office of Community and Rural Affairs (OCRA).

The bill converts the HRTC into a grant program administered by the OCRA after state fiscal year 2015.

Effective Date: July 1, 2014.

Explanation of State Expenditures: (Revised) *Division of Historic Preservation and Archaeology (DHPA):* The DHPA will transfer the administration of the HRTC to the OCRA. They are also required to transfer all property, records and rules regarding this credit to the OCRA. The bill requires the DHPA to provide any assistance necessary for the OCRA to administer this credit. However, this will unlikely result in a reduction of DHPA's administrative expenses because they would still administer the Residential Historic Rehabilitation Credit. Both credits are designed to encourage the rehabilitation of historic buildings and draw from the same pool of potential properties.

(Revised) *Office of Community and Rural Affairs (OCRA):* The OCRA will incur additional expenses to administer the HRTC and implement the Historic Preservation Grant Program. The bill's requirements represent an additional workload [and/or expenditure] on the agency outside of the agency's routine administrative functions. However, the OCRA's existing staffing and resource levels may be sufficient for full implementation.

(Revised) *Historic Preservation Grant Program: Summary -* The bill establishes the Historic Preservation

Grant Program beginning in FY 2016. It allows the OCRA to provide a grant to a person who undertakes a qualifying historic rehabilitation project. The maximum allowable grant equals 20% of the qualifying rehabilitation expenses approved by the OCRA. The total grants awarded through this program will depend on the number of applicants, OCRA's approval process, and the amount of funds appropriated to the program.

Additional Information - The OCRA may award a grant for a project that meets all of the following conditions:

- The historic property must be at least 50 years old and located in Indiana.
- The historic property is listed on the register of Indiana historic sites and historic structures.
- The preservation and rehabilitation plan is approved by OCRA.
- The work is completed within five years according to the submitted plan.
- The historic property is actively used in a trade, business, or some other income-producing function.
- The qualified expenditures exceed \$10,000.

The total amount of grants awarded may not exceed the amount of appropriated for making Historic Preservation Grant Programs.

Explanation of State Revenues: (Revised) **Summary** - The bill prohibits the OCRA from awarding HRTC credits for expenditures made after June 30, 2015. However, the bill does not prevent taxpayers from carrying forward unused tax credits attributable to qualified expenditures made before July 1, 2015. [The HRTC is replaced by the Historic Preservation Grant Program.]

The fiscal impact of this provision will not begin until FY 2023 because of the number of projects already approved or awaiting to redeem the credit they were granted by the DHPA. According to a report submitted by the DHPA, the queue of taxpayers waiting to claim a HRTC extends to FY 2023. This provision will increase state General Fund revenue by approximately \$160,000 to \$450,000 beginning in FY 2023.

Additional Information - The HRTC was established to encourage the rehabilitation of historic properties. The historic property must be actively used in a trade, business, held for rental, or other use in the ordinary course of the taxpayer's business. The credit may be applied against Individual or Corporate Adjusted Gross Income (AGI) Tax liability. The tax credit is equal to 20% of qualified expenditures as approved by the DHPA, and qualified expenditures must exceed \$10,000. The credit is nonrefundable and nontransferable, but unused credits may be carried forward for up to 15 years. Unused credits may not be carried back. The maximum statewide credit may not exceed \$450,000 for all taxpayers for a fiscal year. [The Residential Historic Rehabilitation Tax Credit is the HRTC's complement for the rehabilitation of owner-occupied residential properties.]

From FY 2003 to FY 2013, the DNR certified about \$3.9 M in credits. In addition, the DNR has already certified tax credits up to the annual aggregate credit limit (\$450,000) for each year through FY 2023. This translates into approximately \$3.8 M in additional tax credits to be claimed against FY 2014 through FY 2023 tax liabilities.

In 2009, 39 taxpayers claimed \$99,285 in credits; 30 taxpayers claimed \$93,533 in credits in 2010; and 39 taxpayers claimed \$165,954 in credits in 2011. The preceding HRTC claims were made on Indiana individual income tax returns. HRTC were not claimed by corporate taxpayers in those years. Revenue from the AGI Tax on individuals and corporations is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Division of Historic Preservation and Archaeology, Department of Natural Resources, Office of Community and Rural Affairs.

Local Agencies Affected:

Information Sources: LSA Income Tax Databases; David Duvall, DHPA, 232-1635.

Fiscal Analyst: Heath Holloway, 232-9867.